

Cholamandalam Inv. & Finance

Estimate change

TP change

Rating change



Bloomberg	CIFC IN
Equity Shares (m)	820
M.Cap.(INRb)/(USDb)	611.9 / 7.4
52-Week Range (INR)	818 / 470
1, 6, 12 Rel. Per (%)	-4/-7/21
12M Avg Val (INR M)	1499

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Total Income	69.6	84.1	101.3
PPP	43.1	53.6	66.3
PAT	25.7	31.5	40.0
EPS (INR)	31.3	38.4	48.7
EPS Gr. (%)	8	23	27
BV (INR)	171	206	251

Valuations

NIM (%)	7.3	7.1	7.2
C/I ratio (%)	38.0	36.3	34.6
RoAA (%)	2.7	2.7	2.8
RoE (%)	19.9	20.4	21.3
Payout (%)	9.0	8.9	8.2

Ratios

P/E (x)	23.8	19.4	15.3
P/BV (x)	4.4	3.6	3.0
Div. Yield (%)	0.4	0.5	0.5

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	51.5	51.5	51.6
DII	21.9	22.4	22.5
FII	18.7	18.0	17.9
Others	7.9	8.1	8.0

FII Includes depository receipts

CMP: INR745

TP: INR910 (+22%)

Buy

Strong operational performance barring NIM compression

- CIFIC's PAT declined 7% YoY to INR5.6b while NII grew 17% YoY to INR14.9b in 2QFY23. PPoP rose 18% YoY to INR10.4b. NIM contracted ~35bp YoY and ~45bp QoQ in 2QFY23 led by a sharp ~70bp QoQ increase in the CoB.
- GS3/NS3 improved 30bp/20bp QoQ to 3.8%/2.3%, respectively, and PCR on S3 improved ~80bp QoQ to ~41.5%.
- For 1HFY23, RoE moderated to 18.3% (PY: 18.7%). Disbursement momentum continued to remain strong and grew 126% YoY to INR279.5b in 1HFY23.
- Newer businesses contributed ~21% to the disbursement mix in 2QFY23. Newer businesses spawned by CIFIC, will exhibit an improving disbursement run-rate and will contribute ~10% to the AUM mix by FY24E. These will potentially drive RoA improvement.
- We model disbursement/AUM/PAT CAGR of 32%/23%/19% over FY22-FY25, respectively. We cut our FY23E/FY24E EPS by ~3% each to factor in the margin compression and higher opex ratio. **While we estimate a margin compression of ~60bp/20bp in FY23/FY24, respectively, we reiterate that it has levers on credit costs and business AUM growth to deliver a healthy RoA/RoE profile of 2.7%/20% over FY23-FY24. Maintain BUY with a TP of INR910 (based on 4.0x Sep'24 BVPS).**

Strong disbursements lead to 25% YoY AUM growth

- CIFIC's business AUM grew 7% QoQ/25% YoY to INR877b. Within vehicle finance, MUV/Cars/LCV/CE/2W registered a sequential growth of 8%/6%/6%/3%/10%, respectively.
- Disbursements in 2QFY23 surged 68% YoY/10% QoQ to ~INR146b. The diversified product mix and growth in LAP, HL and newer businesses supported the healthy disbursements.

Magnitude of margin compression in 2HFY23 the key monitorable

- A sharp ~70bp sequential increase in CoF led to NIM compression of ~35bp in 2QFY23. CIFIC guided that the CoF will increase ~50-55bp YoY in FY23.
- CIFIC has effected interest rate increase of ~40bp each in Home Loans (HL) and LAP in 1Q/2Q/3QFY23. In HL and LAP, as and when the PLR is increased, it is immediately passed on as increase in tenor or EMI. This we believe would aid minor improvement in yields in 2HFY23.
- Opex remained elevated with cost-to-income ratio at 39%. Elevated opex was led by investments in newer businesses and gradual build-up of the DST (on-roll sales employees) to reduce the dependence on DSA origination in CSEL and SME. Management guided for cost-to-average assets of ~3.0%.

Asset quality improves driven by LAP while VF and HL are stable

- GNPA and NNPA (RBI IRAC) declined ~45bp each QoQ to 5.8% and 4.0%, respectively. Management overlay was maintained at INR5.28b (~60bp of business AUM) and CIFIC plans to utilize the same over subsequent quarters.

- LAP GS3 declined ~50bp QoQ while GS3 improved ~7-8bp each in both Vehicle Finance and Home Loans. ECL/EAD declined ~20bp QoQ to ~2.7%.
- There was a sequential improvement in both Stage 2 and Stage 3 with the 30+dpd declining ~130bp QoQ to ~9.9%.

Key highlights from the management commentary

- Rabi is likely to be better than Kharif. Mining and infrastructure activities are expected to improve leading to an improvement in CV/CE demand. Passenger Vehicle demand is still very strong.
- In FY23, 35% volume growth is expected in Vehicles and the value growth will be even higher because of the rise in ticket sizes (from BS-IV to BS-VI transition).
- Newer businesses will churn out higher yields but it will also deliver higher opex and credit costs. Despite these, newer businesses will be RoTA-accretive.
- CIFC will seek equity capital when T1 declines below 13% (current T1 at 15.8%).

Valuation and view

- Vulnerable asset pool (Stage 2 + 3) declined ~130bp QoQ to 9.9%. Improvement in the 30+dpd pool seems to suggest that collections have been increasing and will sustain in 2HFY23 as well. CIFC has exhibited conservatism in provisioning and it now carries ECL/EAD of 2.7% (v/s 1.85% prior to COVID-19), which includes a management overlay of ~60bp.
- CIFC has exhibited its capabilities to scale up the newer businesses with their contribution to disbursement mix inching up to ~21% in 2QFY23. While the newer businesses will drive higher opex and credit costs, the higher yields from the same should lead to RoTA accretion. CIFC is a franchise equipped to deliver strong AUM growth and benign credit costs (relative to peers), translating into a sustainable RoE of ~20% across economic cycles.
- The stock trades at 3.6x FY24E P/BV. We believe there will be a further expansion in multiples once investors gain more confidence in its execution capability in newer product lines. **CIFC is our top pick in the NBFC sector. Maintain BUY.**

Quarterly Performance

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	2QFY23E	v/s Est.
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Interest Income	23,712	23,468	24,095	24,390	26,123	28,293	30,839	33,500	98,085	1,18,754	28,213	0
Interest Expenses	11,038	10,778	10,460	10,712	11,309	13,404	15,214	16,771	42,988	56,697	12,666	6
Net Interest Income	12,674	12,690	13,634	13,679	14,814	14,888	15,625	16,729	55,097	62,056	15,547	-4
YoY Growth (%)	34.8	8.2	6.0	9.5	16.9	17.3	14.6	22.3	18.5	12.6	22.5	
Other Income	958	1,239	1,208	1,927	1,587	2,085	2,112	1,720	5,720	7,504	1,767	
Total Income	13,632	13,929	14,842	15,606	16,401	16,974	17,737	18,449	60,816	69,560	17,314	-2
YoY Growth (%)	38.7	11.0	8.8	16.3	20.3	21.9	19.5	18.2	21.6	14.4	24.3	
Operating Expenses	3,705	5,179	5,317	6,486	5,797	6,611	6,805	7,237	20,687	26,450	6,112	8
Operating Profit	9,927	8,750	9,525	9,120	10,604	10,363	10,932	11,212	40,129	43,110	11,202	-7
YoY Growth (%)	55.8	-2.7	-4.3	10.2	6.8	18.4	14.8	22.9	17.5	7.4	28.0	
Provisions & Loan Losses	5,519	584	2,483	-174	2,986	2,782	2,355	1,298	8,803	9,422	3,470	-20
Profit before Tax	4,407	8,165	7,043	9,294	7,617	7,581	8,577	9,914	31,326	33,688	7,732	-2
Tax Provisions	1,139	2,100	1,805	2,398	1,961	1,947	2,230	1,866	7,442	8,004	2,010	-3
Net Profit	3,268	6,065	5,238	6,896	5,657	5,634	6,347	8,048	23,884	25,685	5,721	-2
YoY Growth (%)	-24.2	40.4	28.1	183.5	73.1	-7.1	21.2	16.7	57.7	7.5	-5.7	
Key Parameters (Calc., %)												
Yield on loans	14.6	14.4	14.2	13.6	13.6	13.7			14.7	13.9		
Cost of funds	7.0	6.9	6.5	6.3	6.3	7.0			6.5	7.1		
Spread	7.7	7.5	7.6	7.2	7.3	6.7			8.2	6.8		
NIM	7.4	7.4	7.6	7.3	7.5	7.0			7.9	7.3		
C/I ratio	27.2	37.2	35.8	41.6	35.3	38.9			34.0	38.0		
Credit cost	3.3	0.3	1.4	-0.1	1.5	1.3			1.2	1.1		
Tax rate	25.9	25.7	25.6	25.8	25.7	25.7			23.8	23.8		
Balance Sheet Parameters												
Disbursements (INR b)	36	87	104	127	133	146			355	608		
Growth (%)	1.3	34.8	31.6	57.6	266.7	68.0			36.3	71.3		
AUM (INR b)	678	700	727	769	819	877			769	997		
Growth (%)	6.8	4.2	5.8	9.9	20.8	25.2			9.9	29.7		
AUM mix (%)												
Vehicle finance	71.4	70.4	69.7	68.8	67.6	65.7			68.8	62.8		
Home Equity	21.4	22.0	22.3	22.3	22.1	21.5			22.3	21.4		
Home loans & Others	7.2	7.6	8.0	9.0	10.3	12.8			9.0	8.6		
Borrowings (INR b)	632	623	658	692	739	793			692	905		
Growth (%)	8.0	2.9	6.1	8.5	17.0	27.3			8.5	30.9		
Asset Quality Parameters												
GS 3 (INR B)	45.5	42.7	42.4	33.4	34.1	33.8			33.4	37.0		
GS 3 (%)	6.8	6.2	5.9	4.4	4.2	3.8			4.4	3.8		
NS 3 (INR B)	29.3	27.1	26.0	20.2	20.2	19.8			29.3	27.1		
NS 3 (%)	4.6	4.1	3.7	2.7	2.5	2.3			2.8	2.1		
PCR (%)	35.5	36.5	38.8	39.7	40.7	41.5			47.3	44.0		
Vehicle finance AUM mix (%)												
LCV	20.8	21.0	20.9	20.8	21.0	21.4			20.8	21.0		
Cars & MUV	17.4	17.7	18.1	18.2	18.9	19.4			18.2	18.9		
3W & SCV	5.5	5.3	5.1	4.8	4.6	4.5			4.8	4.6		
Used CV	26.1	26.5	27.1	27.9	27.4	27.1			27.9	27.4		
Tractor	10.4	10.2	10.3	9.8	9.6	9.2			9.8	9.6		
HCV	9.4	8.8	7.8	7.4	7.2	7.0			7.4	7.2		
CE	6.2	6.3	6.3	6.4	6.4	6.4			6.4	6.4		
Two wheeler	4.2	4.2	4.5	4.6	4.9	5.2			4.6	4.9		

E: MOFSL estimates



Highlights from the management commentary

Opening remarks

- Diversified product mix and growth in LAP, HL and newer businesses have helped in achieving healthy disbursements
- 2QFY23 PBT RoTA at 3.4% and 1HFY23 PBT RoTA at 3.5%

Guidance

- Management guided that the cost of borrowings will go up by 50-55bp YoY in FY23 and cost-to-average assets should be between 2.8%-3.0%

Yields

- Yields have moved to 13.5% from 13.4% YoY. CoF (as a % of assets) is still lower on a YoY basis (at 5.8% v/s 6.0% YoY)
- Within HL and LAP, it has effected yield increases of ~40bp each in Jun'22 and Sep'22 and another 40bp yield increase will be effected in Nov'22. In HL and LAP, as and when the PLR is increased, it is immediately reflected in increase in tenor or EMI for the customer.

Vehicle Finance

- Contribution of Vehicle Finance to the disbursement mix is declining over the last few quarters as the contribution of newer businesses to the disbursement mix has been going up.
- October has been one of the best months for the Vehicle Finance Industry and for CIFC as well. In October, the company has disbursed the highest so far.
- Rabi is likely to be better than Kharif. Mining and infrastructure activities are expected to improve leading to an improvement in CV/CE demand. Passenger Vehicle demand is still very strong.
- In FY23, 35% volume growth is expected in Vehicles and the value growth will be even higher because of increase in ticket sizes.

Newer Businesses

- CSEL disbursements were split as INR11.08b (traditional channel) and INR4.71b (partnership channel)
- CSEL business originated through partnerships and MSME bill-discounting (both around one-third of the book) will run down faster than Vehicle Finance
- There are steady state credit costs in the newer business lines. Newer businesses will churn out higher yields but it will also deliver higher opex and credit costs. Despite these, newer businesses will be RoTA-accretive.

Asset Quality

- Both Stage 2 and Stage 3 have declined in absolute terms.
- The company will not be increasing the management overlay. CIFC will be looking to utilize this management overlay in the coming quarters.
- Total write-offs stood at INR800m during the quarter.

Liabilities

- The company will continue to remain dependent on banks for funding till it can activity start raising money from debt markets, which is dominated by AAA-rated NBFCs.
- Most of its businesses satisfy PSL requirements and it also enters into securitization transactions. There is no dearth of funding from banks and it remains open to evaluating newer funding sources.
- There is a SEBI norm that 25% of the incremental borrowings should be done through market borrowings. To fulfill that requirement, CIFC is consciously increasing the proportion of market borrowings in the liability mix.

Equity Capital Raise

- Company will seek equity capital only below Tier 1 of 13% (v/s Tier 1 of 15.8% now)

Others

- Almost one-third of the total employees are off-roll and the rest is on-roll.
- CIFC does not engage collection agencies for collections. Most of the collections are done by the in-house team.
- About 2.1m customers are active across all businesses put together.
- Overall employee count has gone up since it has been adding employees in the newer businesses which are co-located in the existing branches. CIFC opened another 500 resident locations (which are not physical branches).

Key exhibits

Exhibit 1: Disbursements rose ~10% QoQ

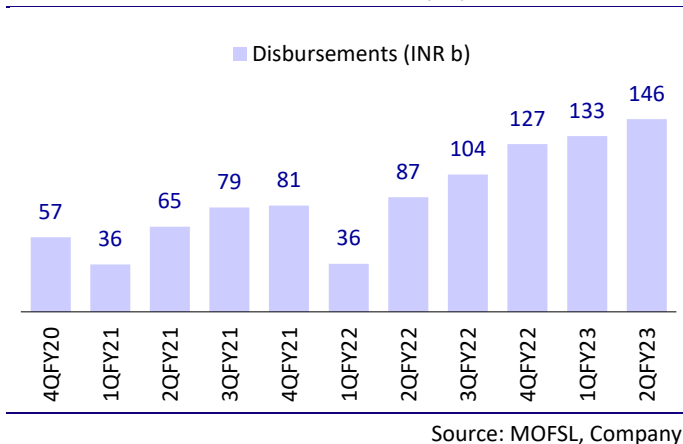


Exhibit 2: AUM grew ~7% QoQ and 25% YoY

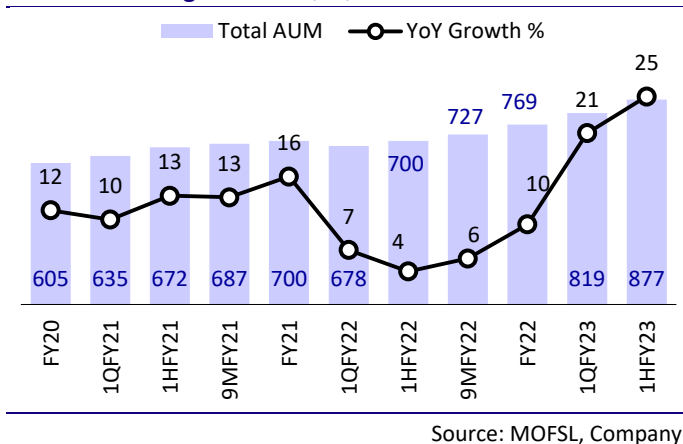


Exhibit 3: Vehicle Finance in the AUM mix has been gradually declining that implies a more diversified mix (%)

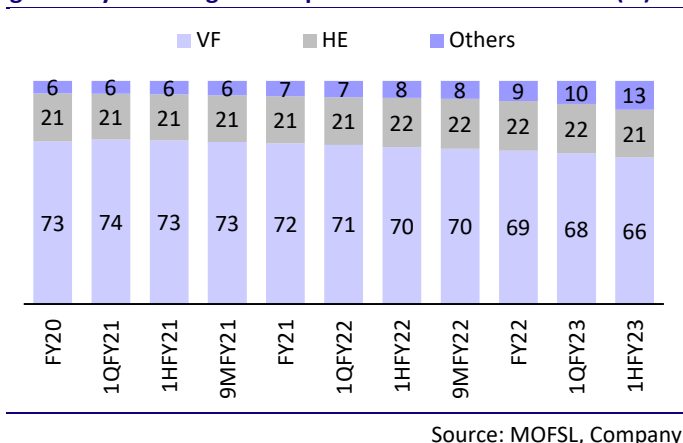


Exhibit 4: C/I ratio increased to 39%

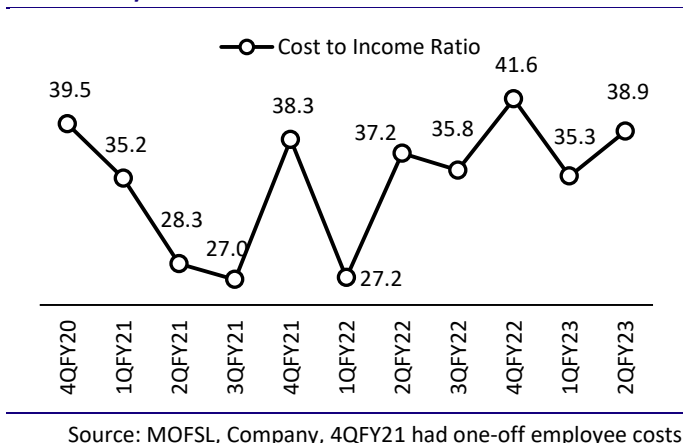


Exhibit 5: GS3 (excluding the impact of the RBI circular) improved ~30bp QoQ to 3.8%

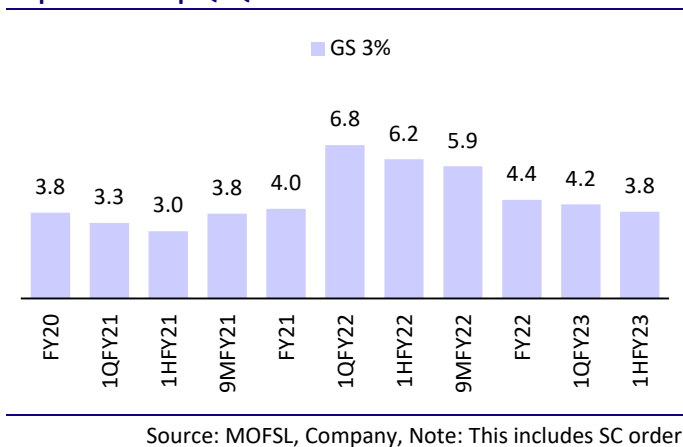
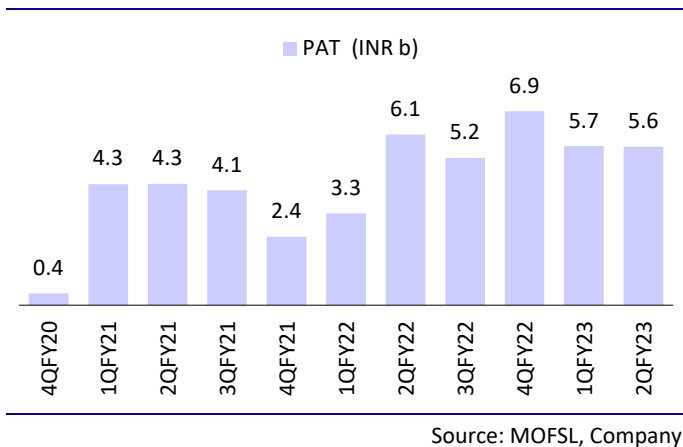


Exhibit 6: PAT declined 7% YoY to INR5.6b



Valuation and view

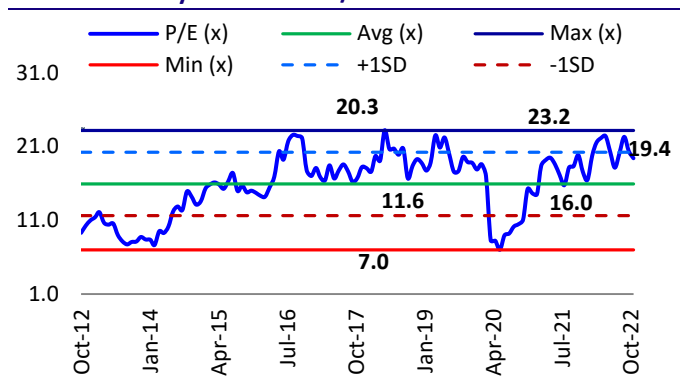
- Vulnerable asset pool (Stage 2 + 3) declined ~130bp QoQ to 9.9%. Improvement in the 30+dpd pool seems to suggest that collections have been increasing and will sustain in 2HFY23 as well. CIFIC has exhibited conservatism in provisioning and it now carries ECL/EAD of 2.7% (v/s 1.85% prior to COVID-19), which includes a management overlay of ~60bp.
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- The stock trades at 3.6x FY24E P/BV. We believe there will be a further expansion in multiples once investors gain more confidence in its execution capability in newer product lines. **CIFIC is our top pick in the NBFC sector. Maintain BUY with a TP of INR910 (based on 4.0x Sep'24 BVPS).**

Exhibit 7: We cut our FY23E/FY24E EPS by ~3% each to factor in higher operating expenses and margin compression

INR B	Old Est.		New Est.		% change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII (incl. assignments)	63.6	76.6	62.1	75.8	-2.4	-1.0
Other Income	7.2	7.9	7.5	8.3	3.6	4.6
Total Income	70.9	84.5	69.6	84.1	-1.8	-0.4
Operating Expenses	25.3	29.5	26.5	30.5	4.5	3.5
Operating Profits	45.5	55.0	43.1	53.6	-5.4	-2.5
Provisions	10.7	12.5	9.4	12.3	-11.8	-1.7
PBT	34.9	42.5	33.7	41.3	-3.4	-2.8
Tax	8.3	10.1	8.0	9.8	-3.4	-2.8
PAT	26.6	32.4	25.7	31.5	-3.4	-2.8
AUM	1,001	1,225	997	1,208	-0.4	-1.4
Loans	971	1,188	967	1,171	-0.4	-1.4
Borrowings	909	1,127	905	1,111	-0.4	-1.4
NIM	7.4	7.1	7.3	7.1		
Credit Cost	1.2	1.1	1.1	1.1		
RoA on AUM	2.8	2.7	2.7	2.7		
RoE	20.6	20.8	19.9	20.4		

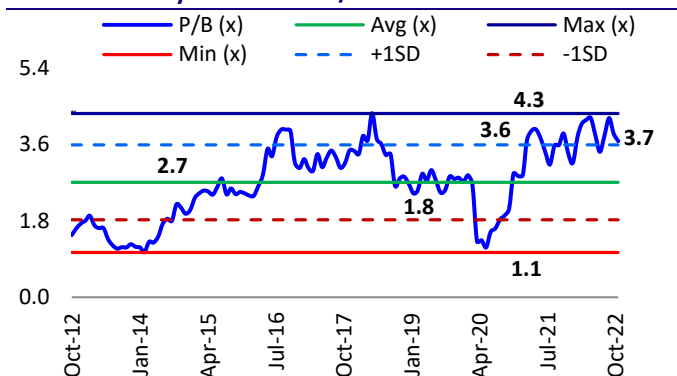
Source: MOFSL, Company

Exhibit 8: One-year forward P/E



Source: Company, MOSL

Exhibit 9: One-year forward P/B



Source: Company, MOSL

Financials and valuations

Income Statement									(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	43,717	51,862	64,962	78,417	88,772	95,668	1,18,754	1,50,454	1,82,657
Interest Expenses	22,308	26,593	35,887	45,922	45,759	42,988	56,697	74,608	90,305
Net Interest Income	21,409	25,268	29,075	32,495	43,013	52,680	62,056	75,846	92,352
Change (%)	14.8	18.0	15.1	11.8	32.4	22.5	17.8	22.2	21.8
Income from assignments	2,103	0	867	2,473	0	0	0	0	0
Other Operating Income	776	2,931	4,090	5,637	6,388	7,232	6,509	7,241	7,863
Total Income	24,295	28,203	34,039	40,607	49,997	60,816	69,560	84,131	1,01,313
Change (%)	13.4	16.1	20.7	19.3	23.1	21.6	14.4	20.9	20.4
Total Operating Expenses	10,133	11,153	12,696	15,776	15,834	20,687	26,450	30,545	35,036
Change (%)	19.9	10.1	13.8	24.3	0.4	30.6	27.9	15.5	14.7
Employee Expenses	4,027	5,368	5,906	6,550	7,485	8,945	11,450	13,167	15,011
Business Origination Expenses	1,784	775	1,525	2,398	2,242	2,259	2,621	2,935	3,287
Other Operating Expenses	4,323	5,010	5,265	6,828	6,107	9,483	12,380	14,442	16,738
Operating Profit	14,162	17,051	21,344	24,831	34,162	40,129	43,110	53,587	66,277
Change (%)	9.1	20.4	25.2	16.3	37.6	17.5	7.4	24.3	23.7
Total Provisions	3,106	3,037	3,112	8,973	13,778	8,803	9,422	12,262	13,761
% of Operating Profit	21.9	17.8	14.6	36.1	40.3	21.9	21.9	22.9	20.8
PBT	11,056	14,014	18,232	15,857	20,384	31,326	33,688	41,325	52,515
Tax Provisions	3,868	4,831	6,370	5,334	5,235	7,442	8,004	9,818	12,476
Tax Rate (%)	35.0	34.5	34.9	33.6	25.7	23.8	23.8	23.8	23.8
PAT	7,187	9,183	11,862	10,524	15,149	23,884	25,685	31,507	40,039
Change (%)	26.4	27.8	29.2	-11.3	44.0	57.7	7.5	22.7	27.1
Proposed Dividend	547	1,016	1,016	1,662	1,640	1,641	2,300	2,793	3,286

Balance Sheet									(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	1,564	1,564	1,564	1,640	1,640	1,643	1,643	1,643	1,643
Reserves & Surplus	40,971	49,105	59,880	80,079	93,962	1,15,434	1,38,819	1,67,533	2,04,287
Net Worth for Equity Shareholders	42,535	50,669	61,445	81,718	95,602	1,17,077	1,40,462	1,69,176	2,05,930
Borrowings	3,02,001	3,83,303	5,05,667	5,50,054	6,37,300	6,91,735	9,05,377	11,11,069	13,13,219
Change (%)	33.8	26.9	31.9	8.8	15.9	8.5	30.9	22.7	18.2
Total Liabilities	3,50,372	4,40,897	5,74,263	6,39,930	7,45,484	8,23,655	10,62,909	12,99,875	15,41,135
Investments	697	729	729	729	16,188	20,762	18,108	16,666	13,132
Change (%)	4.6	4.7	0.0	0.0	2,120.0	28.3	-12.8	-8.0	-21.2
Loans	3,32,244	4,22,532	5,26,223	5,54,027	6,58,393	7,41,492	9,67,198	11,71,453	13,92,156
Change (%)	27.9	27.2	24.5	5.3	18.8	12.6	30.4	21.1	18.8
Net Fixed Assets	1,417	1,646	1,759	2,839	2,294	2,685	3,088	3,551	3,977
Total Assets	3,50,372	4,40,897	5,74,263	6,39,930	7,45,484	8,23,634	10,62,909	12,99,875	15,41,135

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Spreads Analysis (%)									
Avg. Yield on Loans	14.8	13.7	13.7	14.5	15.7	14.7	13.9	14.1	14.3
Avg Cost of Funds	8.5	7.8	8.1	8.7	7.7	6.5	7.1	7.4	7.5
Spread of loans	6.3	6.0	5.6	5.8	8.0	8.2	6.8	6.7	6.8
NIM (on loans)	7.4	6.8	6.3	6.5	7.7	7.9	7.3	7.1	7.2
Profitability Ratios (%)									
RoE	18.2	19.7	21.2	14.7	17.1	22.5	19.9	20.4	21.3
RoA	2.3	2.3	2.3	1.7	2.2	3.0	2.7	2.7	2.8
Int. Expended / Int. Earned	51.0	51.3	55.2	58.6	51.5	44.9	47.7	49.6	49.4
Other Inc. / Net Income	3.2	10.4	12.0	13.9	14.0	13.4	10.8	9.8	8.8
Efficiency Ratios (%)									
Op. Exps. / Net Income	41.7	39.5	37.3	38.9	31.7	34.0	38.0	36.3	34.6
Empl. Cost/Op. Exps.	39.7	48.1	46.5	41.5	47.3	43.2	43.3	43.1	42.8
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	110	110	104	101	103	107	107	105	106
Net NPAs to Net Adv.	3.2	2.3	1.6	2.3	2.3	2.8	2.1	2.0	1.7
Assets/Equity	8.2	8.7	9.3	7.8	7.8	7.0	7.6	7.7	7.5
Valuations									
Book Value (INR)	54	65	79	100	117	143	171	206	251
BV Growth (%)	16.2	19.1	21.2	26.9	17.0	22.2	20.0	20.4	21.7
Price-BV (x)					6.4	5.2	4.4	3.6	3.0
EPS (INR)	9	12	15	13	18	29	31	38	49
EPS Growth (%)	26.3	27.7	29.1	-15.4	44.0	57.4	7.5	22.7	27.1
Price-Earnings (x)					40.3	25.6	23.8	19.4	15.3
Dividend per share	1.1	1.3	1.3	1.7	2.0	2.0	2.8	3.4	4.0
Dividend Yield (%)					0.3	0.3	0.4	0.5	0.5

E: MOFSL Estimates

NOTES

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UNDER REVIEW	Rating may undergo a change
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